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Global Patterns of Project Finance

Global project finance volume reached \$179.0 billion in 1H 2011; this may be down 4% on the \$186.8 billion recorded during the same period in 2010, but considering that was an all-time high, is this news really so bad for the industry? Increasingly, project financing is emerging as the preferred alternative to conventional methods of financing infrastructure and other large-scale projects worldwide. With many firms adding numbers to their project finance teams and countries such as Japan and India seeing massive growth rates, the project finance market might be more robust than it's given credit for. As other sources of borrowing have dried up, project finance is generally still available - even if the projects are slightly less risky and the financiers more cautious! The overriding opinion amongst developers and financiers is that the effects of the economic downturn have not been as severe as first thought. There's no doubt that times are leaner and all parties are going to substantial efforts to ensure the elimination or reduction of risk, but isn't this re-alignment going on everywhere and frankly more sustainable? Acquisition International speaks to Terry Newendorp, Chairman & CEO of Taylor-DeJongh (TDJ) about the availability of project finance in the USA.

TDJ is an independent investment banking firm, and works with all commercial banks, official government and multilateral agencies, capital markets, private equity funds and institutional investors. TDJ has a global reputation for finding the best capital structure for the client's project and in protecting the viability of cross-border investments.

Typical clients of TDJ are international oil companies, international power developers, oilfield services companies, institutional investors in energy and infrastructure, and governments.

Project financing entails a carefully negotiated and well-structured allocation of most foreseeable commercial and political risks in each such project. It is not just that the projects are typically very massive capital investments, with a lot at stake for every party involved, it is also that a lot of careful analysis and diligence are put into the decision to allocate capital by each participant in the transaction. Statistically, the ratings agencies have demonstrated that "loss given default" for BBB- rated project financings is considerably lower (meaning, much less write-off for lenders and investors) than a comparably-rated corporate credit. Thus, project financing is a good way for an investor or lender to assure a more favorable outcome from such an investment.

In the USA

"In the USA, project financing is most frequently utilized for power projects, particularly in renewable energy projects (wind and solar). When North American investors develop projects in the oil & gas sectors internationally, project financing is frequently used for midstream and downstream projects, such as pipelines, LNG plants, refineries, and petrochemical facilities. There is also frequent use of project financing for power generation plants, ports, water treatment and other such infrastructure.

"Few domestic US banks actually engage in project finance inside the USA. The predominant commercial bank participants

in the US project finance market are US subsidiaries of European and Japanese banks. The allocation of capital to the project finance sector by European commercial banks is still a matter of discussion amongst senior-most management in each of those banks. Some of them will undoubtedly find it appropriate to curtail capital allocation for project finance type lending, whereas others will find that the historical returns and risk/return balance in the project finance sector, will allow them to allocate even more capital than currently applied.

"At present, there is adequate liquidity within the commercial bank market in the US to fund the relevant demand for well-structured project finance transactions."

Sectors

"There is increasing use of project financing for oil & gas projects and power projects in many African countries, in several SE Asian countries, and in India.

"The sectors that quite often utilize project financing are: power generation, water/wastewater projects, ports, oil & gas midstream and downstream (such as pipelines, LNG, processing plants), and even some development drilling programs in already-proven oilfields.

The Future

"Appetite from borrowers for project finance will increase over the next 12 months globally. Much of the lending will involve export credit agencies, as many banks will not be able to allocate sufficient balance sheet exposure to accommodate all the new demand."